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C O N F I D E N T I A L SECTION 01 OF 02 CONAKRY 000265

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SUBJECT: CBG MINING COMPANY PREPARES FOR THE WORST

Classified By: POL/ECON CHIEF SHANNON CAZEAU FOR REASON 1.4 B AND D

¶1. (C) SUMMARY. The Guinean Bauxite Company (CBG) is in serious trouble with the worst of the effects of the global economic crisis yet to come. Based on current projections, the company expects to generate \$12 million in revenues for the Guinean Government in 2010, as opposed to \$137 million in 2008. Since CBG provides approximately 80% of the national budget, these projections point to a looming financial crisis for the GoG. The company is taking measures to avert the worst, but the Guinean Government appears to be watching from a distance with little understanding of what lies ahead. END SUMMARY.

¶2. (SBU) On May 6 and 7, Pol/Econ Chief traveled to Sangaredi and the port of Kamsar to tour CBG's (Guinean Bauxite Company) mining enterprise and discuss recent economic developments. In Sangaredi, Pol/Econ Chief met with Roger Thea, the Director of the Mine. In Kamsar, she met with Bachir Diallo, the Director of the Port of Kamsar. Both contacts are Guinean and long-time CBG employees. Thea was trained in Guinea while Bachir was trained locally as well as abroad, including university courses and technical training in the United States. They have apparently been ordered to switch hats in the next two weeks, with Bachir moving to Sangaredi to run the mine and Thea moving to Kamsar to take over port operations.

BACKGROUND

¶3. (SBU) Founded in 1969, CBG is owned by a consortium of mining companies. The Guinean Government holds a 49% share while the rest is currently distributed among Rio Tinto, Alcoa, and DadCorp. Most contacts, including CBG officials, estimate that the Government of Guinea derives approximately 80% of its annual revenue from CBG. The company mines the country's largest and richest known bauxite reserve. With deposits averaging about 60% purity, the bauxite is considered to be of premium quality, among the best in the world. The mine is believed to be sustainable for at least another 25 years at its current purity production, and for hundreds of years more than that at lower purity rates.

CBG ANTICIPATES DELAYED IMPACT OF GLOBAL ECONOMIC CRISIS

¶4. (C) According to the CBG mine director Thea, 2008 was a record year for the company with 30.7 million tons in exports. He said the company usually averages about 13 million tons per year. However, the global economic crisis has deeply affected CBG's projections, the worst of which have yet to take effect. Thea said they were initially shooting for a target of 13.2 million for 2009, but shortly after the markets began to crash, CBG's partners requested that the target be dropped down to the contract minimum of

11.3 million tons.

15. (C) Under the terms of the contract, CBG's partners are obligated to purchase a minimum of 11.3 million tons annually from the GoG, regardless of whether or not that bauxite is actually exported. Thea explained that CBG's partners will pay the GoG for the 11.3 million tons, but likely stockpile much of it in Guinea until prices begin to climb again. However, the long-term effect of the reduced demand is that bigger stockpiles mean that CBG's partners are likely to continue wanting to adhere to the contract minimum into the foreseeable future. In addition, when global prices do begin to rise, the GoG will not benefit immediately because they will already have collected their revenues from a time when prices were low.

16. (C) Another consequence of the contract structure is that CBG and the GoG will not really begin to feel the impact of the global decline in bauxite prices until 2010. Thea explained that the GoG's price is based on the previous year's average price over the first quarter. Therefore, throughout 2009, the GoG is charging based on early 2008 prices. At the beginning of next year, they will have to charge based on the very low prices of early 2009. Bachir, the CBG port director, described the situation in stark terms. "In 2008, CBG generated \$137 million in revenue for the government...in 2009, we expect that total to drop to \$82 million, and then to \$12 million in 2010."

A SINKING SHIP

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17. (C) The financial projections have CBG officials worried. Thea said he is already working to try and cut costs in order to cushion the landing when the reality of the economic crisis sets in six months down the road. He likened CBG's situation to that of a ship in a storm - "our only option is to start throwing goods overboard in order to keep ourselves from sinking." Thea said he is trying to establish a minimum budget to keep the company afloat.

18. (C) Both CBG officials individually acknowledged that a major problem is the fact that CBG gave each of its 2400 workers a 100% salary increase towards the end of 2008. Bachir (Kamsar) told Pol/Econ Chief that the company's payroll had increased from \$21 million to \$35 million. When asked who had authorized the pay increase, Bachir said it was a high-level company official who has since been fired. While Bachir was quite negative about the salary issue, Thea put a positive spin on it, saying that CBG's workers are very happy and will likely be more willing to work with the company to weather the crisis. He said they had even independently suggested a temporary reduction in wages in order to avoid layoffs.

19. (C) Evidence of the company's budget were visible throughout the tour of the mines. Just one year ago, CBG was mining 24 hours a day, seven days of week. Within the last few months, they have cut out one shift and are now mining 16 hours a day. Production is down by approximately 40%. In addition, CBG has reduced its supply of electricity and running water to the surrounding communities. What used to come every day is now provided only three days a week.

CBG ON ITS OWN

10. (C) Despite these efforts to reduce costs, Bachir said much more needs to be done. He passed a confidential, impressive powerpoint report he sent to the GoG a few months ago to advise government officials of the impending crisis. Pointing to a 60% decline in metal prices over the last six

months, Bachir said CBG needs to drop its operating costs from its current rate of \$22/ton to \$14/ton in order to increase projected government revenues from the anticipated \$12 million in 2010 to a target of \$80 million. "I'm moving to Sangaredi because the government has asked me to cut operating costs at the mine...good luck."

¶11. (C) When asked whether the CNDD or other government officials really understand what lies ahead, Thea (Sangaredi) said that they did not understand at first, but are now beginning to get a better sense of how the mining sector works. He claimed that the GoG is concerned about CBG, but has not offered any solutions. "They are just reassuring us that they support our efforts to find a solution," Thea said. Bachir was much more critical. He said that in the four months since the coup, neither the prime minister nor the minister of mines have visited CBG operations. He has had no response to his report of impending doom and doubts that the GoG is even considering a strategy to cope with the projected loss of revenue. Bachir added that he knows CNDD President Dadis from way back, and that he had met with him a month ago to explain the situation. "He is useless," Bachir said.

COMMENT

¶12. (C) It is clear from the mine visit that the GoG has not yet begun to feel the brunt of the global economic crisis. Revenues are down, but CBG is headed for major challenges in ¶2010. The fact that neither the prime minister nor the minister of mines have even traveled the four hours out to Boke to see the situation for themselves suggests that the GoG does not have a good grasp of the looming crisis. Cutting costs is going to be a tough order since most Guinean workers do not really understand the concept of a "layoff," and despite the company's reassurances to the contrary, salary reductions are never popular. If the global alumina market recovers today, it could still take CBG years to recover. Given the GoG's heavy reliance on the mine for the national budget, the situation points to disaster. END
COMMENT.
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